

The demise of the music industry is visible everywhere but in the facts

If music executives sold bottled water, they'd be calling for a ban on tapwater downloads.

But their industry is proving resilient by Victor Keegan guardian.co.uk, Friday 12 March 2010

Illegal downloads continue to be a cause of Armageddon within the music industry and a source of endless fascination outside. Business leaders still regularly moan that illegal downloads are destroying their livelihood, especially if representatives of government are within hearing range. At the first Music 4.5 conference in London last week, speakers took it as read that "kids are not buying music anymore" and that they must look elsewhere for revenues. Evidence of the demise of purchased music is everywhere to be seen, except for one place: the statistics.

In fact it is easier to make the case that the music industry, far from imploding, is one of the great success stories of the recession. The most dramatic example of this is in what kids are supposed not to be buying any more: single tracks. Last year sales of singles soared to an all-time record of 152.7m units, an astonishing 33% rise in a year when the whole economy (GDP) contracted by 3.3%. If the music pundits seriously think that these are not being bought by kids, then it shows how out of touch they are with their customers. These same youngsters who were – and probably still are – massively downloading free music from the internet were prepared to pay up to £3 a pop for an insipid ringtone (interestingly, not included on the industry's statistics unless they are full-track ones). Why? Because there is an easy payment system on phones which didn't exist on the web. Now there is an easy payment system (iTunes et al) on the web they are starting to pay again. If the big music companies had spent their energies dreaming up a payments mechanism for web downloads instead of suing their customers they could have swept all before them. Instead they were like the crew of a sinking boat that blames the sea instead of trying to mend the leak. If they were in the bottled water industry, they would probably be urging the government to stop free downloads of tap water at home as unfair competition. Yet the bottled water industry should have been their model. It got away with charging us lots of money for a product that was no better than free tapwater through clever marketing.

Even now practically everyone I meet from the music industry protests that it couldn't be expected to combat the technological disruption that was eroding its traditional model. What piffle. Lots of books have been written about disruptive technologies. They can't say they weren't warned. As it turned out, pretty well every system for monetising music – iTunes, Spotify, We7, Shazam, Nokia's Comes with Music et al – has come from outside the industry. What a missed opportunity.

Sales of singles are, of course, only one part of the industry. There has, unsurprisingly, been a fall in sales of albums – down from 133.6m units to 128.9m last year, not helped by the closure of key UK retail chains Zavvi and Woolworths – but that was more than offset by growth elsewhere in sponsorship, live shows and merchandising where there is something of a boom happening in Britain. Overall, the music industry grew by an amazing 4.7% in recession-ridden 2008, according to PRS for Music, and will probably be resilient when the full 2009 figures come in. A key fact is that last year income from live music overtook that from recorded music for the first time. Don't think tracks, think music.

Clearly, the industry is changing. Consumers can now buy the singles they want without being locked into buying albums containing other tracks they don't want. That may bring in less income but it is the gateway to other revenues. The people who allegedly won't pay for downloads will pay huge sums to hear their favourite artists live or be part of the merchandising experience. Maybe illegal downloads – which, needless to say, I don't approve of – should be looked on as a massive crowd-sourced marketing operation to generate money for gigs, memorabilia and future sales.

The future lies in capitalising on the whole musical experience, as the admirable Music 4.5 initiative well knows: it seeks to bring together artists and entrepreneurs to plot the future. If the quality of the five-minute pitches made at the conference by budding businesses is anything to go by, the future is bright. I loved the way Songkick.com is moving beyond Last.fm by linking songs you and your friends like with information about the band's past and present gigs, enabling you to talk about them after the show. MusicGlue offers free downloads in exchange for email addresses which, over time, will produce geographic patterns showing where there is a dense enough cluster of fans to justify a gig. CloseCallMusic encourages people to interact with live music as it happens, while TuneRights is trying to crowd-source the financing of records. Audiofuel, which matches music to your jogging beat, aims to be the new Ministry of Sound. I loved what Decibel is planning – to have a vast data base of meta tags so you can find out details of each member of the band: that Jimi Hendrix played as a session man on a Little Richard track, for instance. That is just the sort of value-added that will lure people away from free downloads. Nick Hornby would love it.

These were only some of the pitches made which suggest that the future of the industry may continue to reside in bottom-up initiatives rather than the top-down approach of the major labels. The music industry, to be fair, is still a very heavy investor as a new study shows, but it had better be alert if it doesn't want to be upstaged even more. The sad fact is that around 90% of start-ups fail – but it is vital for future employment, as well as the health of the music industry that we spend money to find the winners. A revolution is under way.